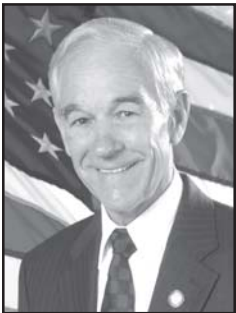


Ron Paul's FREEDOM REPORT

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*Dr. Paul addresses the
U.S. House of Representatives*

Statement on HR 1424

Madame Speaker, only in Washington could a bill demonstrably worse than its predecessor be brought back for another vote and actually expect to gain votes. That this bailout was initially defeated was a welcome surprise, but the power-brokers in Washington and on Wall Street could not allow that defeat to be permanent. It was most unfortunate that this monstrosity of a bill, loaded up with even more pork, was able to pass.

The Federal Reserve has already injected hundreds of billions of dollars into US and world credit markets. The adjusted monetary base is up sharply, bank reserves have exploded, and the national debt is up almost half a trillion dollars over the past two weeks. Yet, we are still told that after all this intervention, all this inflation, that we still need an additional \$700 billion bailout, otherwise the credit markets will seize and the economy will collapse. This is the same excuse that preceded previous bailouts, and undoubtedly we will hear it again in the future after this bailout fails.

One of the most dangerous effects of this bailout is the incredibly elevated risk of moral hazard in the future. The worst performing financial services firms, even those who have been taken over by the government or have filed for bankruptcy, will find all of their poor decision-making rewarded. What incentive do Wall Street firms or any other large concerns have to make sound financial decisions, now that they see the federal government bailing out private companies to the tune of trillions of dollars? As Congress

did with the legislation authorizing the Fannie and Freddie bailout, it proposes a solution that exacerbates and encourages the problematic behavior that led to this crisis in the first place.

With deposit insurance increasing to \$250,000 and banks able to set their reserves to zero, we will undoubtedly see future increases in unsound lending. No one in our society seems to understand that wealth is not created by government fiat, is not created by banks, and is not created through the manipulation of interest rates and provision of easy credit. A debt-based society cannot prosper and is doomed to fail, as debts must either be defaulted on or repaid, neither resolution of which presents this country with a pleasant view of the future. True wealth can only come about through savings, the deferral of present consumption in order to provide for a higher level of future consumption. Instead, our government through its own behavior and through its policies encourages us to live beyond our means, reducing existing capital and mortgaging our future to pay for present consumption.

The money for this bailout does not just materialize out of thin air. The entire burden will be borne by the taxpayers, not now, because that is politically unacceptable, but in the future. This bailout will be paid for through the issuance of debt which we can only hope will be purchased by foreign creditors. The interest payments on that debt, which already take up a sizeable portion of federal expenditures, will rise, and our children and grandchildren will be burdened with increased taxes in order to pay that increased debt.

As usual, Congress has shown itself to be reactive rather than proactive. For years, many people have been warning about the housing bubble and the inevitable bust. Congress ignored the impending storm, and responded to this crisis with a poorly thought-out piece of legislation that will only further harm the economy. We ought to be ashamed.

**Ron Paul's
TEXAS STRAIGHT TALK**

August 31-September 15, 2008

In Government We Trust?

Many who agree with me on a lot of other issues, do not understand my enthusiasm for gold and sound money or why I spend so much time studying and talking about monetary policy. It's true that I talk about money differently than most, but the fact is sound money offers many benefits. For example – peace.

Can sound money really bring about peace? Actually, it plays a big part in peaceful international relationships. Money based on commodities, rather than paper, is not subject to government manipulation, and is a key component to free and honest trade. History shows that if countries engage in trade with each other, their governments tend to find ways to get along for the same reason you do not kill your customers at your place of business, even if they occasionally annoy you. If someone outright cheats you, however, you may engage in “war” by taking them to court, for example, and the relationship will sour. Governments and central banks with unfettered power to manipulate currency also have the ability to cheat their creditors. One way they do this is to simply create enough currency to pay off debts. This devalues the currency and “cheats” the recipient out of what they are owed. It would not be fair if you watered down your product the way our government waters down its currency, so it is not hard to understand, in these simplified terms, why loose monetary policy contributes so much to ill will and war around the world.

Sound money, on the other hand, simply is what it is. Removing governmental power to manipulate money removes the temptation for government to spend, print and cheat. Sound money ensures that our government's spending priorities would be brought into sharp focus and reduced to only what we can afford.

Sound money also limits the ability to wage wars of aggression. Imagine how much more careful Washington would have to be about starting a war if they did not have this financial sleight of hand at their disposal! Fiat currency allows government to do expensive things they should not be doing while paying the bills with cheap money. The Federal

Reserve has lately been auctioning off large amounts of treasury bills as a way to finance the wars in Iraq and Afghanistan, and our crushing entitlement burden. The resulting devaluation of the dollar is quickly eroding our image as a good trading partner in the world. As a consequence, there is therefore more talk of economic isolation and war. This vicious cycle of spending, fighting and inflating is not what Americans want. It is what the government wants, and it has had to deceive the citizens into allowing and supporting it. Sound money curbs the government's ability to engage in these shenanigans and reduces the wars we fight to only truly defensive ones, for which Americans are more than willing to stand and fight. So in these ways, sound money is very conducive to peace.

Can sound money give you financial security? There is something very comforting in knowing that what you earn today will retain its purchasing power in the years to come. Indeed, the same silver dime that bought a loaf of bread in the 1960s can still buy a loaf of bread with its precious metal content – which is worth about \$1.00 today. An ounce of gold has always been about evenly exchangeable for a finely tailored men's suit, which these days is roughly \$800. And in these days of fluctuating gas prices, when priced in gold, oil has been stable. Meanwhile, since the creation of the Federal Reserve, the fiat dollar has lost 94% of its purchasing power. The erosion of purchasing power rapidly accelerated when it was completely

uncoupled from gold in 1971. This sort of fluctuation in the medium of exchange creates a lot of uncertainty in the marketplace and necessitates that you either take extraordinary defensive maneuvers, or face financial ruin. Trusting in government for financial security in retirement is not a safe option. Indeed, a recent study by the Consumer Bankruptcy Project shows that bankruptcies among those 75 and older has more than quadrupled since 1991. This represents wealth and savings that have been eroded by inflation, and trust in entitlement promises that were more fantasy than reality. Even with the pittance that social security pays to seniors, it is bankrupt and bringing the economy to its knees. It is no wonder that many in the younger generations want no part of it, and they should not be forced into a failed system.

On the other hand, holding physical gold can defend against aggressive government monetary policies that threaten to inflate away the value of your life savings. During

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the hyperinflation in post WWI Germany, what used to be a comfortable nest egg was suddenly the value of a postage stamp. If one held just a portion of their savings in precious metals, the crisis was greatly softened. Gold will never be worth nothing, even if the exact price fluctuates. There is a famous photograph, however, of a German woman during this time period burning piles of tightly bound banknotes to keep warm.

Imagine if the money you earned had honest, stable value, or even appreciated like an investment! No such special measures, like converting dollars to gold, would be required to ensure that your savings would sustain you in your golden years. That is the way it could be and is supposed to be. However, the government's thirst for power will not be easily, or cheaply, quenched. Fiat currency is one tool governments have to extract wealth quietly from the working class. It is time for the people to wake up to this ruse and look to the Constitution to restore sound currency.

Sound money keeps government spending in check, keeps trade fair and honest, which reduces the temptations, and many underlying causes for governments to wage wars. It also gives you the peace of mind of knowing that your savings will be able to sustain you in your retirement.

So if sound money is such a good thing, what is stopping people from simply trading with each other in gold and silver? Why are you still being paid in fiat dollars, and why can't you pay for gas in gold? The answer is that the government has enacted policies that provide considerable stumbling blocks to such transactions.

One of the main stumbling blocks is Federal legal tender laws, which state that government-controlled fiat currency MUST be accepted for many kinds of monetary transactions. In light of this, Gresham's Law takes effect. Gresham's Law states that bad money drives out good money. Meaning, if someone is forced to accept your bad money, it is to your advantage to pass it off, like a hot potato, in exchange for something of value. Any good money you have, you will hoard. Eventually, real money is driven out of circulation and under people's mattresses, so to speak. In the absence of legal tender laws, people are free to accept the medium of exchange of their choice, and are likely to insist on payment in something of real value.

Related to legal tender laws, contracts in gold are not

enforced. Meaning if two parties agree to exchange goods or services for gold, and end up in a dispute, the courts will simply settle the dispute in Federal Reserve notes. While gold clauses have been legally enforceable since the late 1970s the fact remains that disputes over gold clauses might well be resolved in court with a dollar figure calculated in terms of Federal Reserve Notes. In the recently decided case of 216 Jamaica Ave v. S&R Playhouse, which reversed a district court decision, the court upheld the enforceability of a gold clause, but sent the case back to the district court to decide

what obligations the gold clause imposed on the defendant. It is not inconceivable that this will result in a decision that the value of the "gold coin" referred to could be valued by the court in terms of Federal Reserve Notes, not in terms of ounces of gold. Furthermore, given the federal government's actions against Robert Kahre (the Nevada businessman who paid his employees at the legal tender face value of gold bullion coins) it is obvious that the government is still waging a war on gold. Whether either of these cases establishes a precedent remains to be seen. Additionally, because 31 USC 5103 establishes Federal Reserve Notes as legal tender, it would likely take a court challenge to determine whether a gold clause or legal tender law takes precedence.

Governments should do very little, in my estimation, but it should enforce contracts and property rights through the courts. But in this instance it shirks this basic duty, when it comes to gold, as one way to keep control of our economy and the medium of exchange. One is also expected to pay sales tax on the purchase of gold. This is as ludicrous as if you paid sales tax at the bank when you converted dollars into quarters! The IRS also expects you to pay capital gains tax on gold, which is so backwards, since gains on gold really represent decline in the value of the dollar!

Legal tender laws should be repealed at the Federal level. Congress has the Constitutional duty to protect the integrity of our money. However, since it has passed this duty off, and the Federal Reserve has only debased our currency, Congress should no longer force Americans to do business in dollars if they would prefer to transact in gold, or silver, or cigarettes or seashells, for that matter. Free people should be free to associate and do business in ways that benefit them. Instead they are forced to use the unstable dollar to their own detriment, and the benefit the government.

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**Ron Paul's
TEXAS STRAIGHT TALK**

September 22, 2008

Predictions vs. Reality in Iraq

On September 10, 2002 I asked 35 questions regarding war with Iraq. The war resolution passed on October 16, 2002. Now today, as some of my colleagues try to reestablish credentials regarding spending restraint, I want to call attention to my 18th question from six years ago:

“Are we willing to bear the economic burden of a 100 billion dollar war against Iraq, with oil prices expected to skyrocket and further rattle an already shaky American economy? How about an estimated 30 year occupation of Iraq that some have deemed necessary to “build democracy” there?”

Many scoffed at my “radical” predictions at the time, regarding them as hyperbole. Six years later, I am forced to admit that I was wrong. My “radical” predictions were in fact, not “radical” enough.

I warned of a draining 30-year occupation. Now, politicians glibly talk about a 100-year occupation as if it is no big deal. On cost, according to estimates from the Congressional Research Service, we have already burned through around \$550 billion in Iraq, at a rate of about \$2 billion per week. Economist Joseph Stiglitz’s estimates are even higher, at \$12 billion a month. It is a total price tag quickly heading into the trillions, if we don’t stop bombing and rebuilding bridges in Iraq that lead us nowhere but bankruptcy! Bridges in this country are crumbling along with our economy, while some howl about earmarks. Earmarks are a drop in the bucket compared to war and occupation.

Yes, I was wrong about Iraq. I knew it would be bad. I didn’t know it would be this bad.

The American people deserve better. Being asked to endorse such a farce is beyond insulting. Clearly, the rosy predictions of the neo-Conservatives from before the war are not coming true. Far from it! With a straight face, one official estimated the TOTAL cost of reconstruction in Iraq would be just \$1.7 billion. Turns out that we spend more than that in ONE WEEK. Our friends are not pitching in to cover the cost. Expenses are not being covered by oil from a grateful and liberated Iraqi people. Rather, big corporate

interests are benefitting, the price of oil has more than quadrupled, and the American economy is on its knees and sinking fast.

No one predicted the exact course of this war before it started. But to continue to listen to the foreign policy advice of those that were the MOST offbase will only lead to more foreign policy disasters. We need to keep this in mind as we think about Russia, Iran, Cuba and other countries. Keep in mind - the doomsday predictions on the Iraq War from six

years ago, sound like a cakewalk today. What leaders in the administration had predicted reads like a fairytale. Ask yourself, when listening to the same foreign policy “experts” explaining situations around the world and suggesting policy positions: In light of the facts of today, and the predictions of yesterday, how expert have they shown themselves to be?

Passing HR 2605 to sunset authorization for the use of force in Iraq is the first step to stopping this bloody war, and the consequent bleeding of our treasuries. Serious fiscal conservatives will support it, as will those who have been paying attention to foreign policy predictions and reality.

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Nothing in this publication is intended to aid or hinder the passage of legislation before Congress.

About the F.R.E.E. Foundation

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